

FDIC State Profile

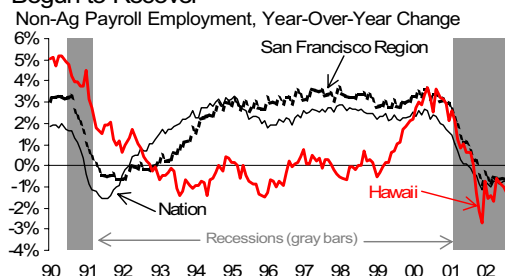
SPRING 2003

Hawaii

Nonfarm payroll employment in Hawaii expanded 1.2 percent in the year ending November 2002, the fourth greatest increase among the 50 states.

- The Hawaii economy stagnated from 1992 to 1999, expanded toward the end of the U.S. economic expansion, but was hit hard by the U.S. recession and the fallout from September 11 (see **Chart 1**). A strong U.S. economy in the late 1990s boosted U.S. mainland travel to Hawaii, helping to overcome weakness in foreign visitor markets.
- The unemployment rate in Hawaii as of November 2002 was 3.9 percent, the fifth lowest among the 50 states. This was a significant improvement from a year earlier when the economy was adversely affected by a downturn in the key tourism sector.

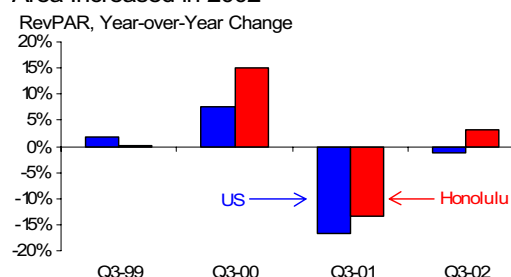
Chart 1: Payroll Employment in Hawaii Has Begun to Recover



Hotel revenue per available room (RevPAR) has risen recently in the Honolulu metropolitan area, and lodging employment statewide has improved.

- An increase in RevPAR in the **Honolulu** metropolitan area (see **Chart 2**) represents one measure of improvement in Hawaii's travel sector. Torto Wheaton Research data indicate that the increase in RevPar in the Honolulu MSA exceeded the U.S. average during 2002.¹
- Employment in the state's lodging industry increased 1.4 percent in the year ending November 2002. However, employment in this sector remained 9 percent below the peak reached more than a decade earlier.

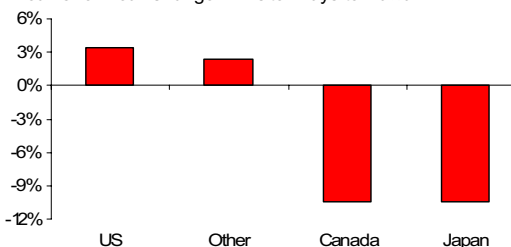
Chart 2: Hotel Revenues in the Honolulu Metro Area Increased in 2002



U.S. mainland visitor days increased in 2002, while Japanese visitor days fell (see **Chart 3**).

- The number of visitors and visitor days from the U.S. mainland increased in 2002, based on data through October. However, visitor days from two of the most important foreign markets, Japan and Canada, declined.
- Japanese visitor days represented 15 percent of the state's year-to-date total through October 2002; however, Japanese visitors accounted for 23 percent of total visitor spending. Over the same period, spending per day per Japanese visitor was roughly \$270 compared with \$150 per day per visitor from the U.S. mainland.

Chart 3: Domestic Tourism Rebounded But Canadian and Japanese Visitors Stayed Away



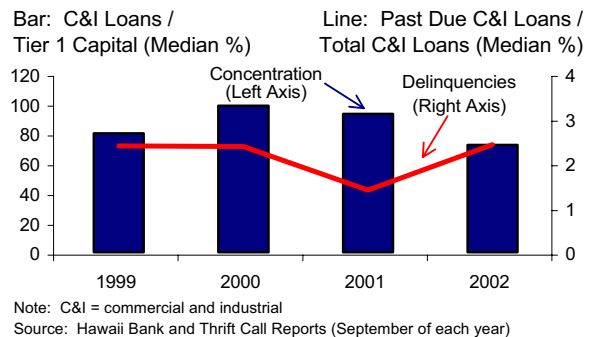
¹ Torto Wheaton Research estimates RevPAR for 54 major U.S. metropolitan areas.

State Profile

Insured institutions headquartered in Hawaii reported improved performance during the year ending third quarter 2002; however, vulnerabilities remain.

- The majority of the state's insured institutions reported improved return on average asset (ROA) ratios. During 2001 and 2002, net interest margins (NIMs) generally benefited from declining interest rates and a steepening yield curve, primarily because most of the state's 9 insured institutions are either large, liability-sensitive banks, or thrifts specializing in long-term mortgages. Declining overhead ratios, rising noninterest income-to-average asset ratios, and lower provision expense ratios also buoyed ROAs during the period.
- Commercial credit conditions softened during the year ending third quarter 2002. The median past-due commercial and industrial (C&I) loan ratio increased year-over-year from 1.39 to 2.41 percent (see **Chart 4**). Despite increases in C&I past-due loan ratios, overall delinquency levels are manageable and below peaks reported in the mid-1990s.

Chart 4: Commercial Loan Delinquencies Increased Among Hawaii-Based Institutions

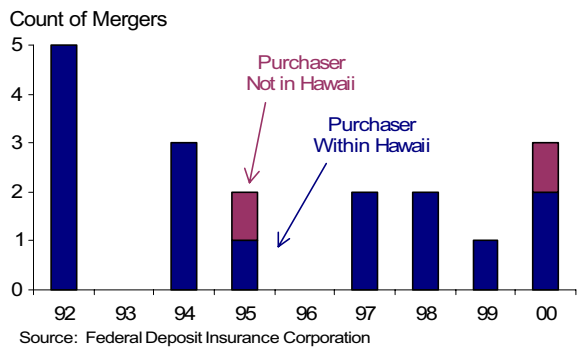


The median total past-due loan ratio for insured institutions based in Hawaii declined from 1.90 to 1.48 percent in the year ending third quarter 2002.

Hawaii has become an increasingly concentrated banking market.

- Significant merger activity between 1991 and 2002 has reduced the number of separately-chartered insured institutions within the state by two-thirds, from 27 to 9 (see **Chart 5**). Most institutions acquired during the past decade held less than \$1 billion in total assets.
- A few, local competitors dominate the market. As of June 2002, 79 percent of Hawaii branch deposits were controlled by the three largest in-state insured institutions. In contrast, in 1994, these same three institutions reported a 63 percent market share.
- Credit unions provide an important source of competition for the industry. The ratio of credit union memberships-to-population in Hawaii was 57.5 percent as of mid-2002, twice the national average and fourth only to D.C., Virginia, and Alaska. The 101 credit unions headquartered within the state control \$4.6 billion in deposits, or about 20 percent of the combined deposits of credit unions, commercial banks, and savings institutions. Nationally, credit

Chart 5: Merger Activity Has Reduced the Number of Hawaii-Based Insured Institutions



unions control an estimated 10 percent of combined deposits.

- Competition from large, in-state insured institutions and credit unions might place downward pressure on loan yields and upward pressure on deposit costs.

Hawaii at a Glance

| General Information | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
|--|-------------------|---------------|----------------|-----------------|---------------|
| Institutions (#) | 9 | 10 | 10 | 14 | 16 |
| Total Assets (in thousands) | 29,886,854 | 30,056,621 | 30,469,141 | 30,602,994 | 30,346,523 |
| New Institutions (# < 3 years) | 0 | 0 | 0 | 0 | 0 |
| New Institutions (# < 9 years) | 0 | 0 | 0 | 0 | 0 |
| Capital | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
| Tier 1 Leverage (median) | 8.84 | 8.92 | 8.50 | 8.27 | 9.17 |
| Asset Quality | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
| Past-Due and Nonaccrual (median %) | 1.48% | 1.90% | 2.25% | 2.82% | 3.89% |
| Past-Due and Nonaccrual ≥ 5% | 1 | 1 | 2 | 4 | 7 |
| ALLL/Total Loans (median %) | 1.94% | 1.85% | 1.55% | 1.73% | 1.73% |
| ALLL/Noncurrent Loans (median multiple) | 1.55 | 1.63 | 0.94 | 0.65 | 0.52 |
| Net Loan Losses/Loans (aggregate) | 0.32% | 0.92% | 0.64% | 0.49% | 0.57% |
| Earnings | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
| Unprofitable Institutions (#) | 1 | 1 | 1 | 3 | 3 |
| Percent Unprofitable | 11.11% | 10.00% | 10.00% | 21.43% | 18.75% |
| Return on Assets (median %) | 1.02 | 0.74 | 0.78 | 0.70 | 0.69 |
| 25th Percentile | 0.70 | 0.47 | 0.54 | 0.11 | 0.40 |
| Net Interest Margin (median %) | 4.27% | 4.28% | 4.11% | 4.33% | 4.41% |
| Yield on Earning Assets (median) | 6.39% | 7.86% | 8.01% | 7.66% | 8.47% |
| Cost of Funding Earning Assets (median) | 1.77% | 3.51% | 3.69% | 3.45% | 4.02% |
| Provisions to Avg. Assets (median) | 0.06% | 0.20% | 0.36% | 0.38% | 0.39% |
| Noninterest Income to Avg. Assets (median) | 0.95% | 0.60% | 0.59% | 0.58% | 0.50% |
| Overhead to Avg. Assets (median) | 2.77% | 3.10% | 2.82% | 3.35% | 3.41% |
| Liquidity/Sensitivity | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
| Loans to Deposits (median %) | 76.18% | 76.11% | 86.72% | 85.22% | 83.33% |
| Loans to Assets (median %) | 55.22% | 60.42% | 70.36% | 67.45% | 68.75% |
| Brokered Deposits (# of Institutions) | 0 | 2 | 3 | 6 | 5 |
| Bro. Deps./Assets (median for above inst.) | na | 0.11% | 0.21% | 0.09% | 0.21% |
| Noncore Funding to Assets (median) | 28.42% | 33.64% | 32.09% | 28.59% | 30.40% |
| Core Funding to Assets (median) | 56.23% | 55.39% | 54.37% | 57.63% | 57.13% |
| Bank Class | Sep-02 | Sep-01 | Sep-00 | Sep-99 | Sep-98 |
| State Nonmember | 5 | 7 | 7 | 10 | 12 |
| National | 1 | 1 | 1 | 1 | 1 |
| State Member | 1 | 0 | 0 | 0 | 0 |
| S&L | 0 | 1 | 1 | 2 | 2 |
| Savings Bank | 2 | 1 | 1 | 1 | 1 |
| Mutually Insured | 0 | 0 | 0 | 0 | 0 |
| MSA Distribution | # of Inst. | Assets | % Inst. | % Assets | |
| Honolulu HI | 9 | 29,886,854 | 100.00% | 100.00% | |